

Beef & Cattle Market Outlook



Glynn Tonsor

**Dept. of Agricultural Economics
Kansas State University**

**98th Annual Beef Cattle Research Roundup,
KSU Agricultural Research Center,
Hays, KS
April 19, 2012**



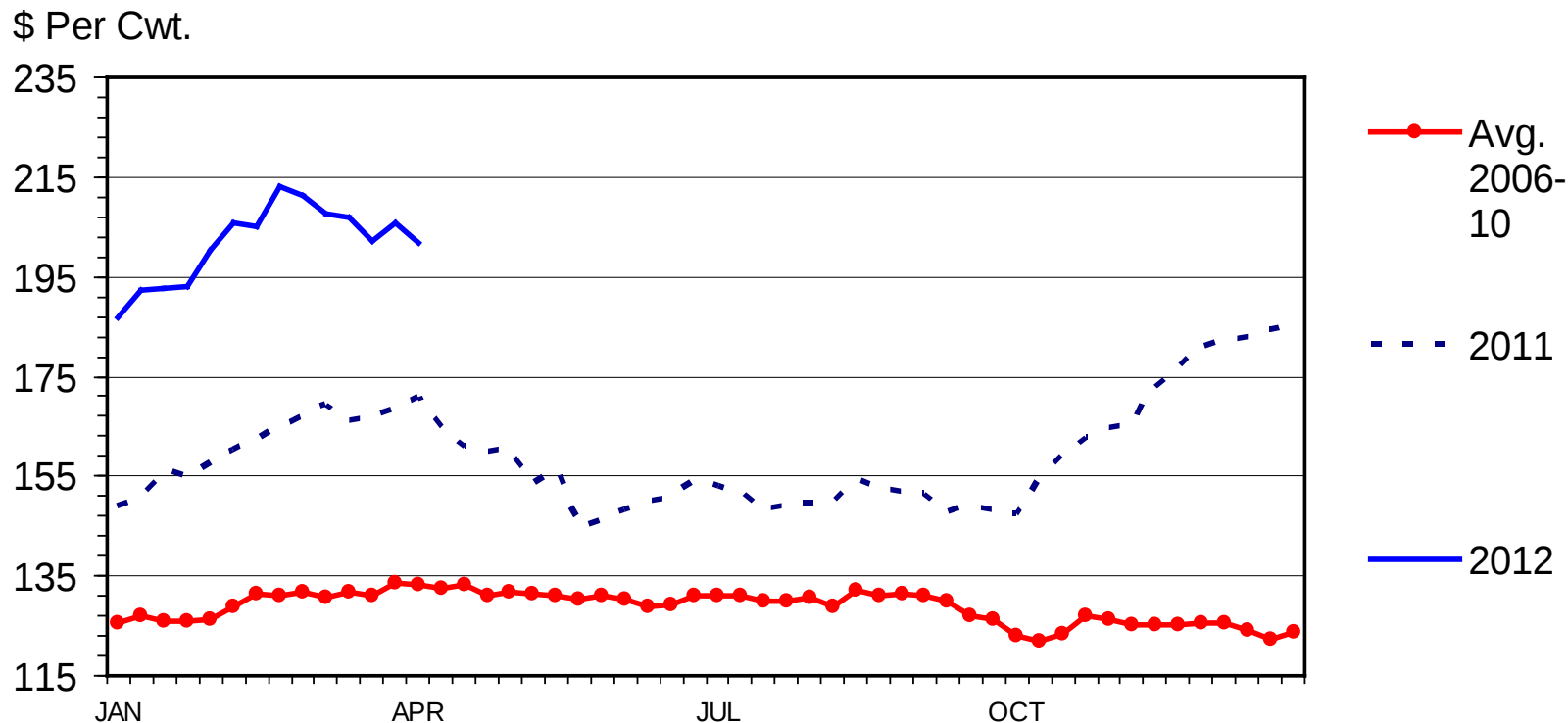
Economic Outlook Overview: Cow-Calf

- Recent calf price pullback; BUT
- Continued beneficiary of tight supplies and expanded heifer retention...
- Returns over cash costs may set historic records
 - 2013 may prove to be “peak return year” ...



MED. & LRG. #1 STEER CALF PRICES

400-500 Pounds, Southern Plains, Weekly



Livestock Marketing Information Center

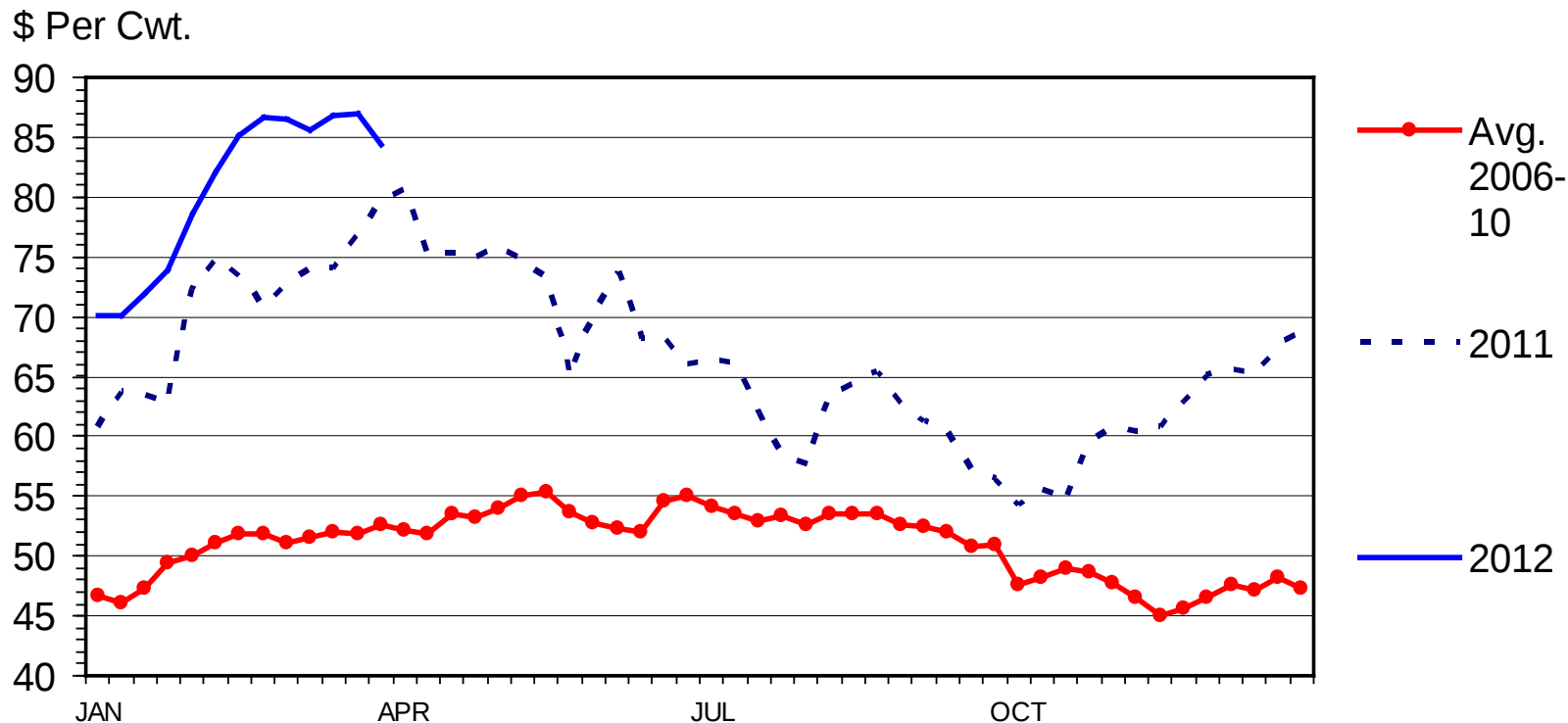
Data Source: USDA-AMS, Compiled & Analysis by LMIC

C-P-49A
04/09/12



SLAUGHTER COW PRICES

Southern Plains, 85-90% Lean, Weekly



Livestock Marketing Information Center

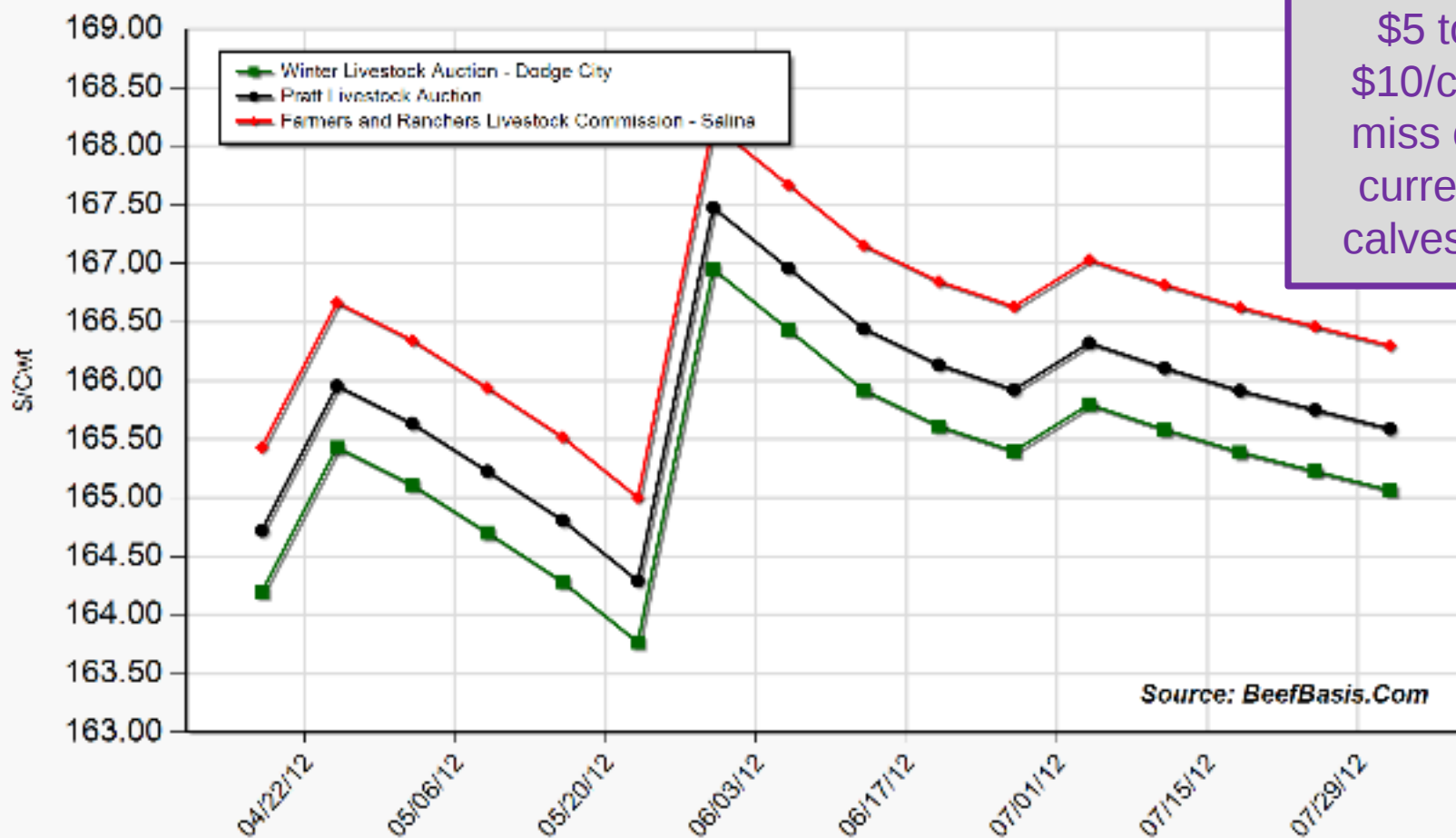
Data Source: USDA-AMS

C-P-35
04/09/12



As of: 4/18/12

Projected Price for 550 Lb Steer at Selected Kansas Auctions



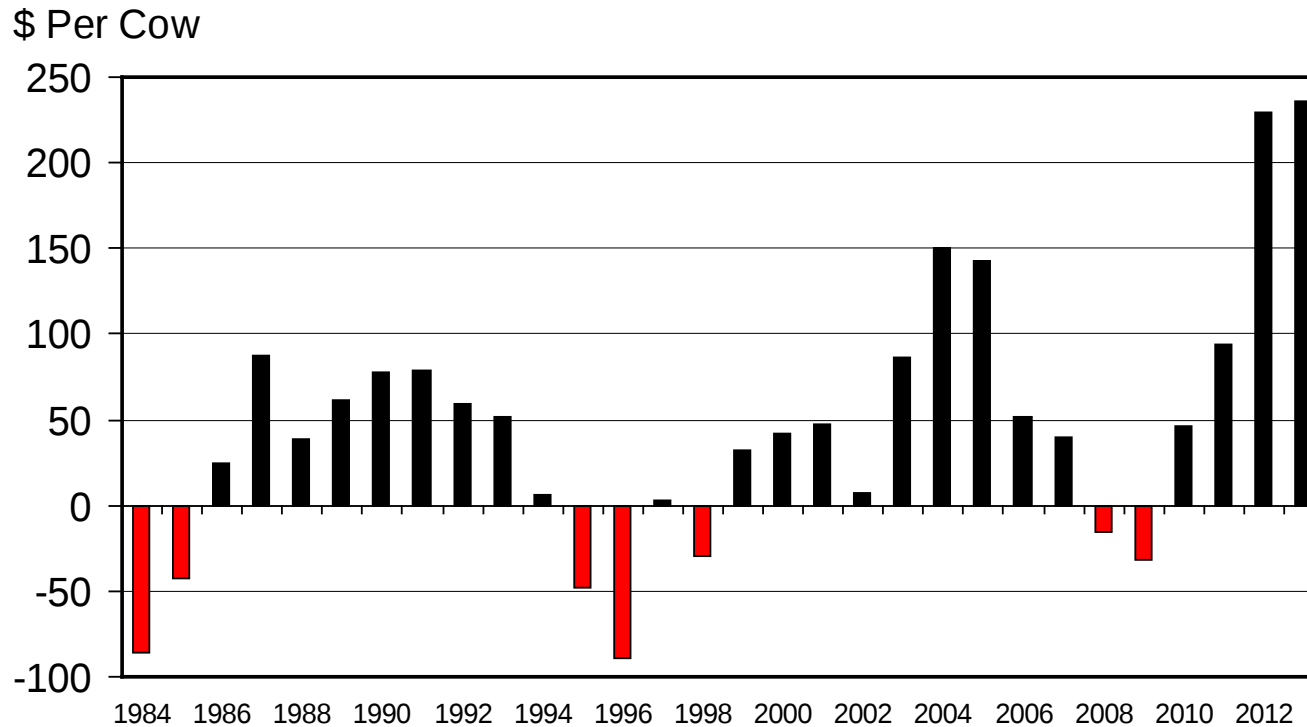
12' Strong Basis
=
\$5 to \$10/cwt miss on current calves...

Source: BeefBasis.Com



ESTIMATED AVERAGE COW CALF RETURNS

Returns Over Cash Cost (Includes Pasture Rent), Annual



Livestock Marketing Information Center

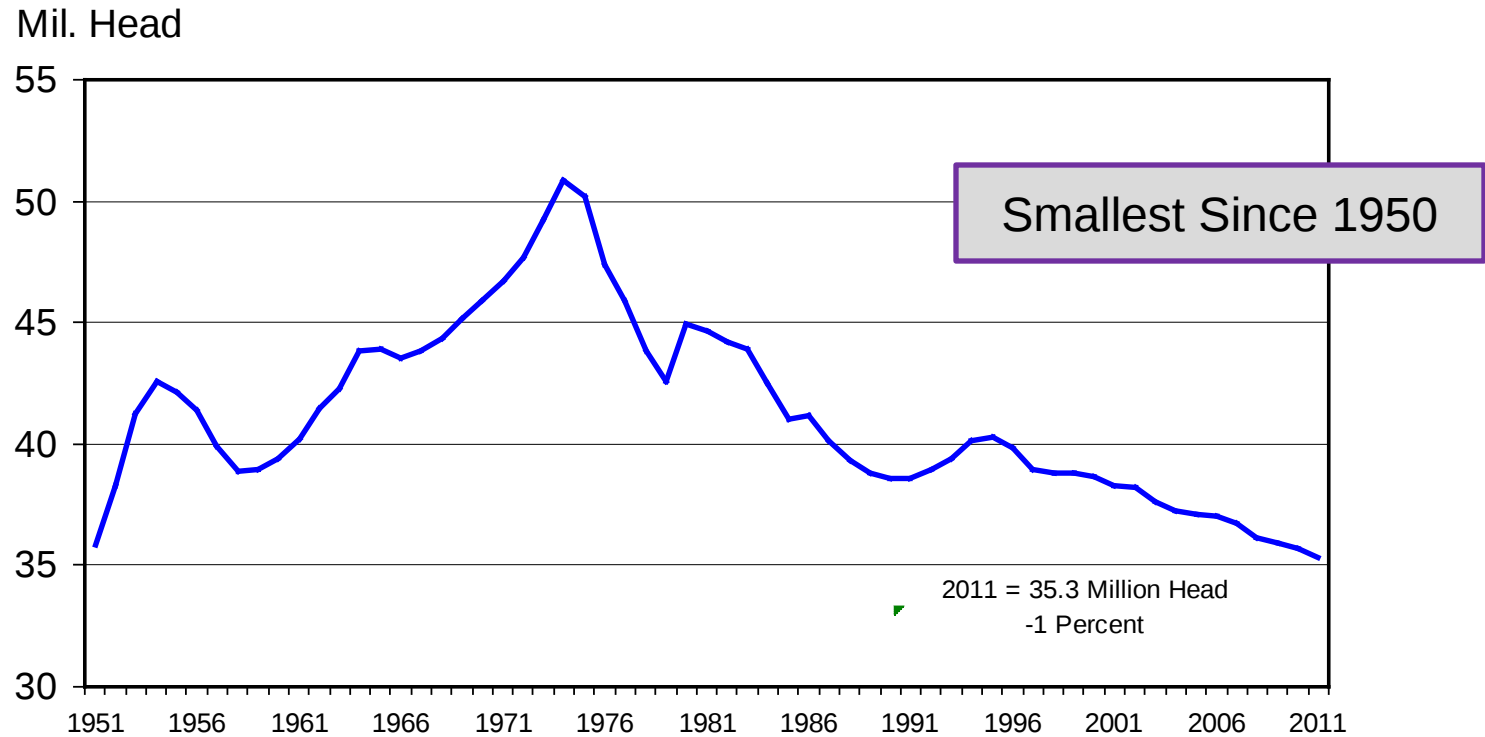
Data Source: USDA-AMS & USDA-NASS, Compiled & Analysis by LMIC

C-P-66
03/21/12



CALF CROP

U.S., Annual



Livestock Marketing Information Center

Data Source: USDA-NASS

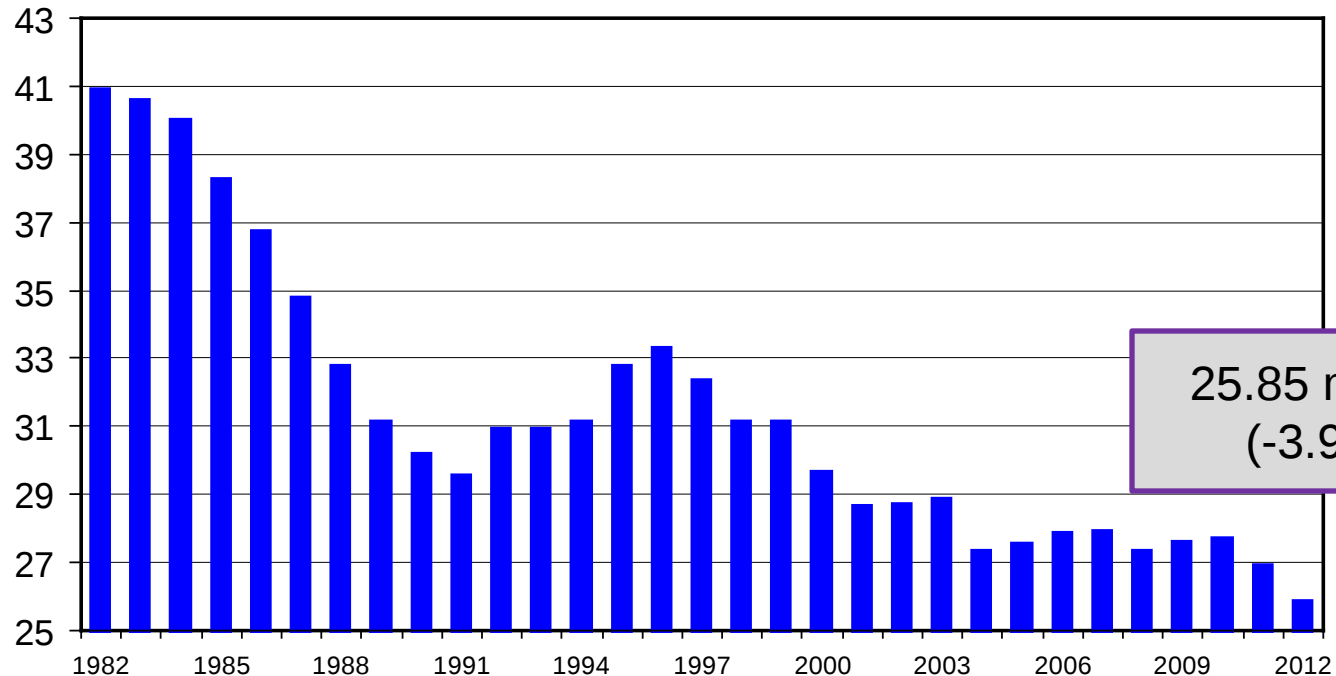
C-N-18A
01/29/12



JANUARY 1 FEEDER CATTLE SUPPLIES

Residual, Outside Feedlots, U.S.

Mil. Head



25.85 million
(-3.9%)

Livestock Marketing Information Center

Data Source: USDA-NASS

C-N-30
01/29/12



When will U.S. national herd expand?

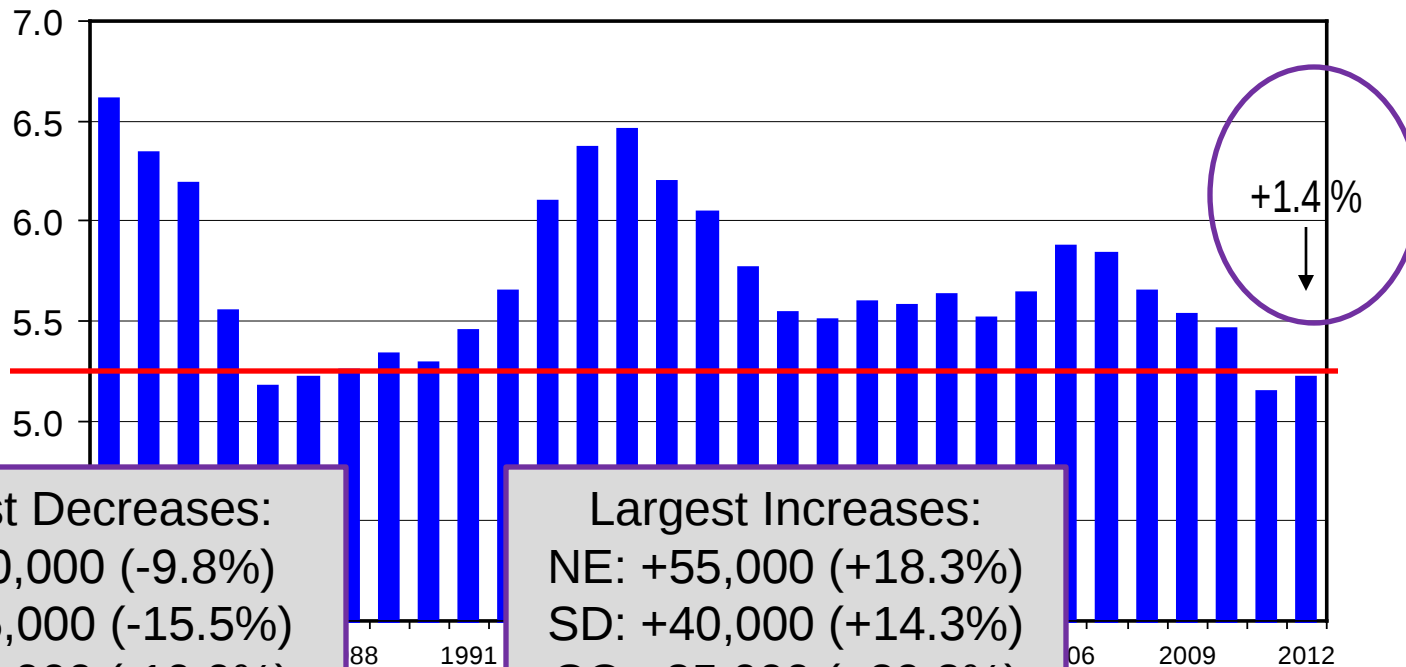
-- by 2014??? -- who & where will expansion occur???

HEIFERS HELD AS BEEF COW REPLACEMENTS

KS: +5,000 (+2.0%)

January 1, U.S.

Mil. Head



Largest Decreases:

TX: -60,000 (-9.8%)
OK: -55,000 (-15.5%)
MO: -30,000 (-10.0%)
AR: -21,000 (-15.4%)
NM: -20,000 (-21.1%)

Largest Increases:

NE: +55,000 (+18.3%)
SD: +40,000 (+14.3%)
CO: +35,000 (+29.2%)
WY: +25,000 (+17.9%)
IA: +20,000 (+16.7%)

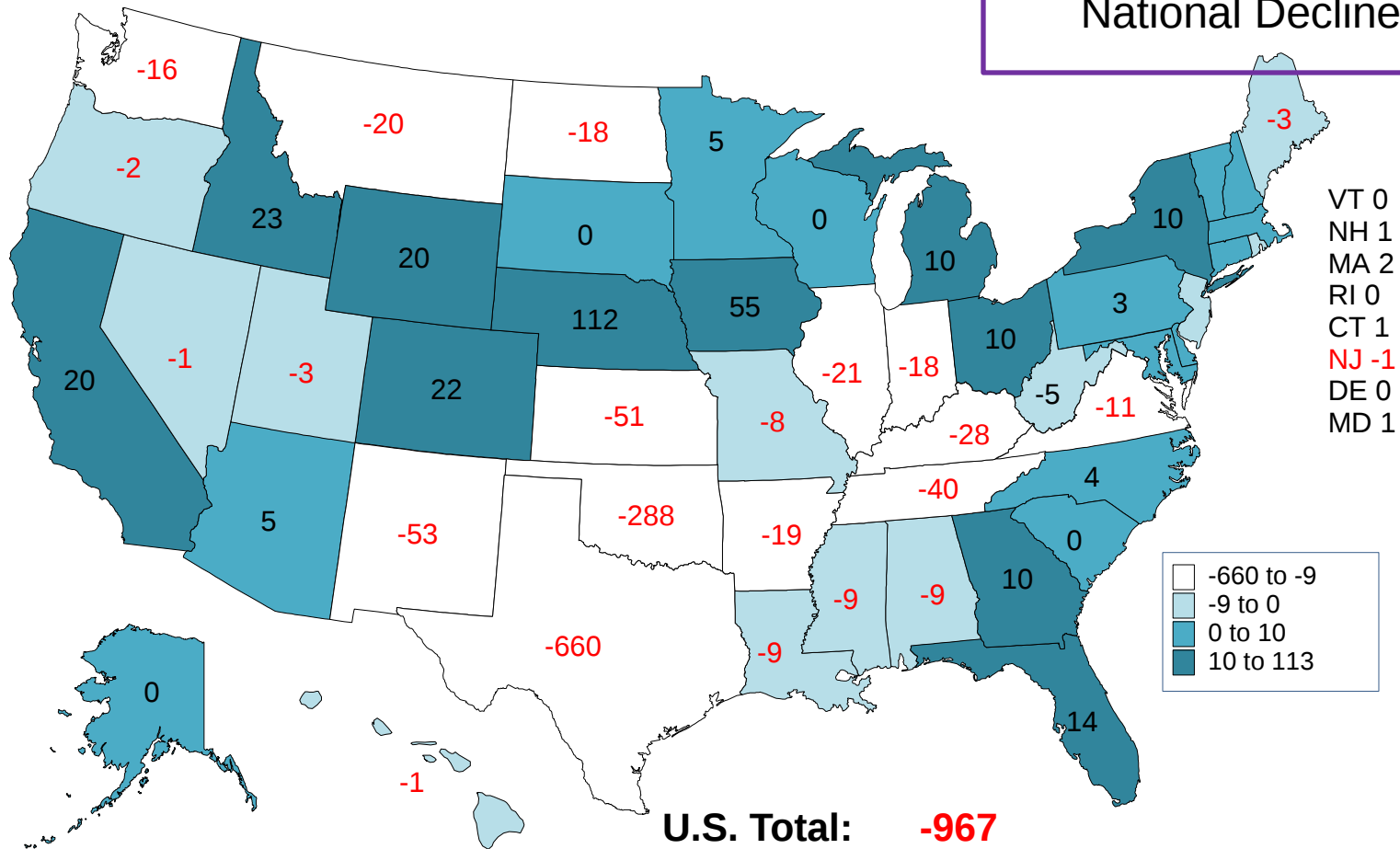
C-N-38
01/29/12

Livestock Marketing Information
Center Data Source: USDA-NASS



CHANGE IN BEEF COWS NUMBERS JANUARY 1, 2011 TO JANUARY 2012 (1000 Head)

OK + TX = 98.1% of
National Decline



BEEF COWS THAT CALVED JANUARY 1, 2012 (1000 Head)

National Herd:
- 3.1% (vs. 2011)
Smallest since 1962

VT 10
NH 4
MA 7
RI 1
CT 5
NJ 8
DE 4
MD 43

Other:
1%

TX/OK: Smallest %
Since 1972

U.S. Total: 29883

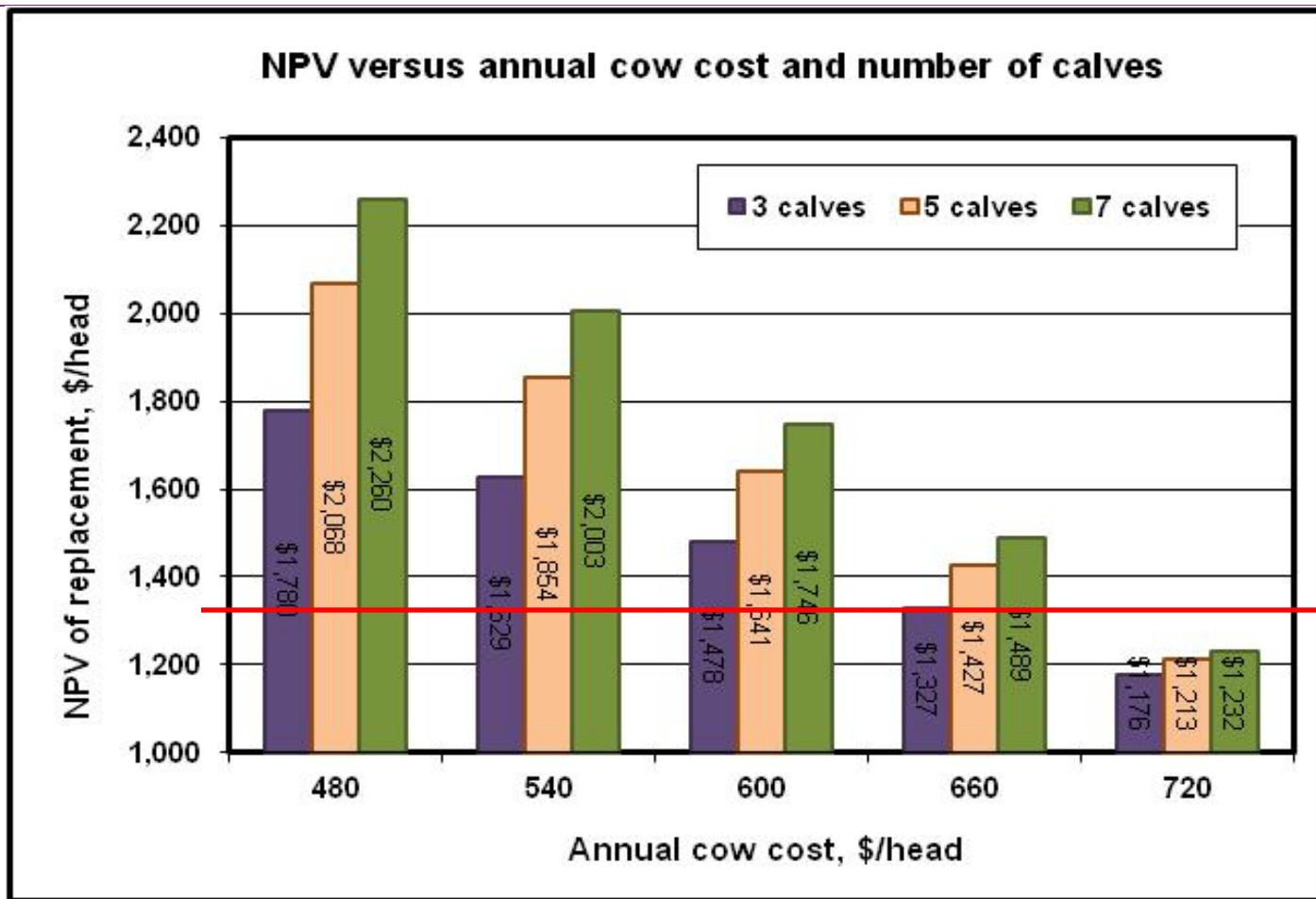
0 to 160
160 to 435
435 to 909
909 to 4366

Livestock Marketing
Information Center
Data Source: USDA-NASS

01/27/12



KSU – Beef Replacement; Excel Spreadsheet Decision Tool (<http://www.agmanager.info/livestock/budgets/production/default.asp>)



4/18/12'

Dodge City, KS
Auction:
Young Bred
Cows
\$1,100 to
\$1,500

Notable
regional
variation...

Scenario1: FARPI Adjusted \$/cwt (550 lbs calves @ \$158 in 2012 to \$161 in 2021) 6.5% interest/discount rate; 3% calf death loss



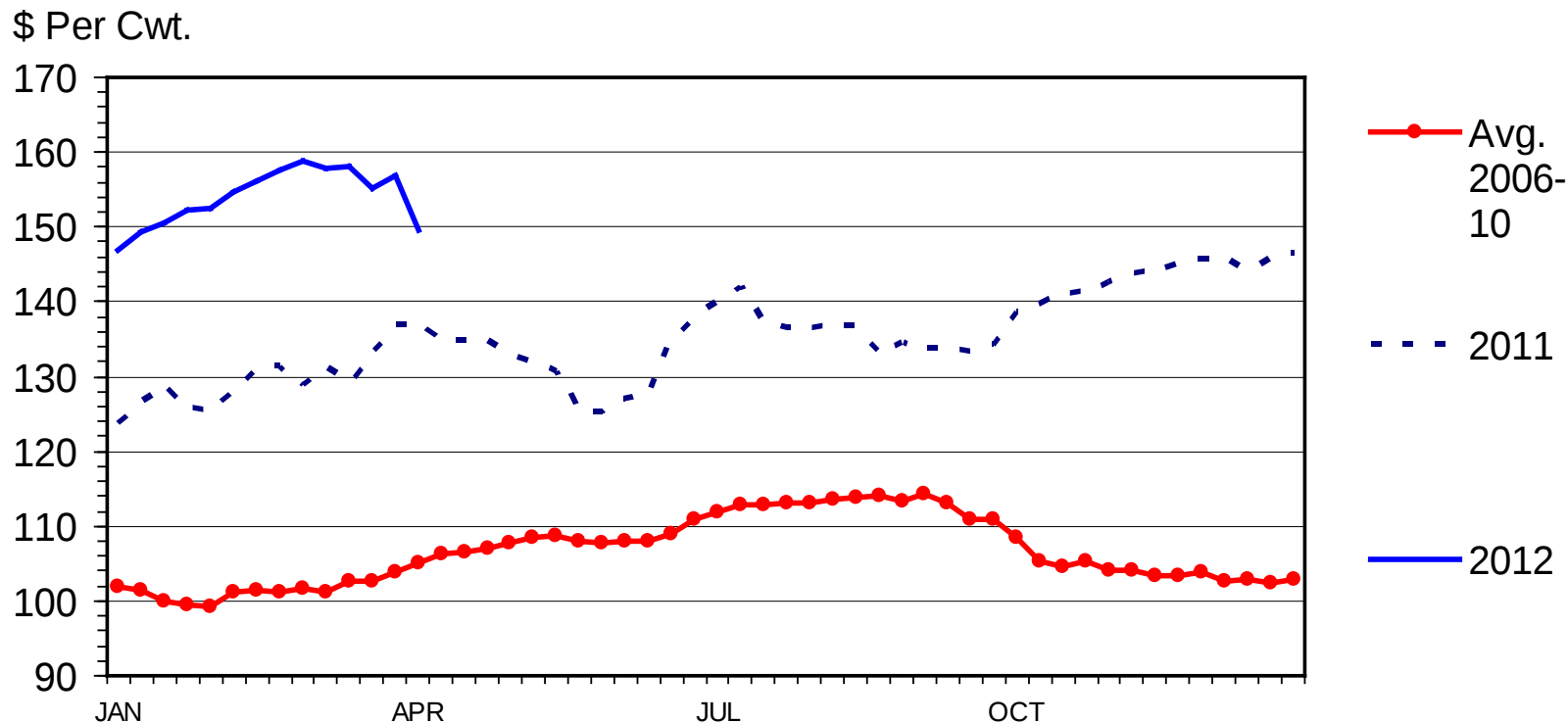
Economic Outlook Overview : Stockers

- Continued sophistication of this segment
 - “cheap corn days” are unlikely to return
- Expected margins squeezed this spring by run on calves
 - Historically strong basis on calves...
- Accounting and economic profit divergence
 - Value of consumed forage continues to increase...



MED. & LRG. #1 FEEDER STEER PRICES

700-800 Pounds, Southern Plains, Weekly



Livestock Marketing Information Center

Data Source: USDA-AMS, Compiled & Analysis by LMIC

C-P-49
04/09/12



“Buy-Sell” spreadsheet tool

(<http://www.agmanager.info/livestock/budgets/production/beef/cattlebuysell.swf>)

4/18/12' Salina, KS Situation:

- BeefBasis.com forecasted price of 750 lb steer July 23, 2012 is \$154.29/cwt
- What is break-even purchase price of a 550 lb steer purchased on April 23, 2012?
 - forecasted price is \$170.10/cwt



“Buy-Sell” spreadsheet tool

(<http://www.agmanager.info/livestock/budgets/production/beef/cattlebuysell.swf>)

Purchase Weight ¹	Selling Price						
	\$148.29	\$150.29	\$152.29	\$154.29	\$156.29	\$158.29	\$160.29
	Breakeven Purchase Price ²						
450	177.04	180.22	183.39	186.57	189.74	192.92	196.09
500	169.10	171.97	174.84	177.72	180.59	183.46	186.33
550	162.65	165.27	167.90	170.52	173.14	175.76	178.39
600	157.32	159.73	162.15	164.56	166.98	169.39	171.81
650	152.84	155.08	157.32	159.56	161.80	164.04	166.28
700	149.05	151.14	153.23	155.32	157.41	159.50	161.59
750	N/A	N/A	N/A	N/A	N/A	N/A	N/A

¹ Enter the minimum purchase weight you are willing to consider.

² Based on a feeding cost of gain of \$90/cwt.

Expected Return: +\$0.84/head [2.0 * (\$170.52 - \$170.10)]

Feeding COG \$80 = +\$7.50/head Expected Return

Feeding COG \$100 = - \$5.82/head Expected Return

**But “true” expected
purchase price may not
be \$170 ...**

Economic Outlook Overview :

Feedlots

- Excess capacity and packer margin concerns will remain an issue
- Growing relevance of premiums, by-product values, and diversity across operations...
 - Great weather this winter = strong growth rates
- Probable losses for the year...



Feedlot Capacity – to - Calf Crop Ratio

Assuming: 2011 Calf crop of 35.3 mil. hd

	<i>Capacity (mil. Hd)</i>				
<i>DOF</i>	15.5	16	16.5	17	17.5
138	1.16	1.20	1.24	1.27	1.31
148	1.08	1.12	1.15	1.19	1.22
158	1.01	1.05	1.08	1.11	1.15
168	0.95	0.98	1.02	1.05	1.08

Assuming: 2021 Calf crop of 40.6 mil. hd

	<i>Capacity (mil. Hd)</i>				
<i>DOF</i>	15.5	16	16.5	17	17.5
138	1.01	1.04	1.08	1.11	1.14
148	0.94	0.97	1.00	1.03	1.06
158	0.88	0.91	0.94	0.97	1.00
168	0.83	0.86	0.88	0.91	0.94



Feedlot Operations and Marketings

Feedlots: Less than 1,000 Head Capacity

	Operations	Marketings (mil. hd)	Annual Change in Marketings	% of Total Marketings
2006	86,000	3.64		13.94%
2007	85,000	3.70	1.6%	14.14%
2008	80,000	4.05	9.5%	15.31%
2009	80,000	3.91	-3.5%	15.27%
2010	75,000	4.03	3.1%	15.43%
2011	75,000	3.17	-21.3%	12.31%

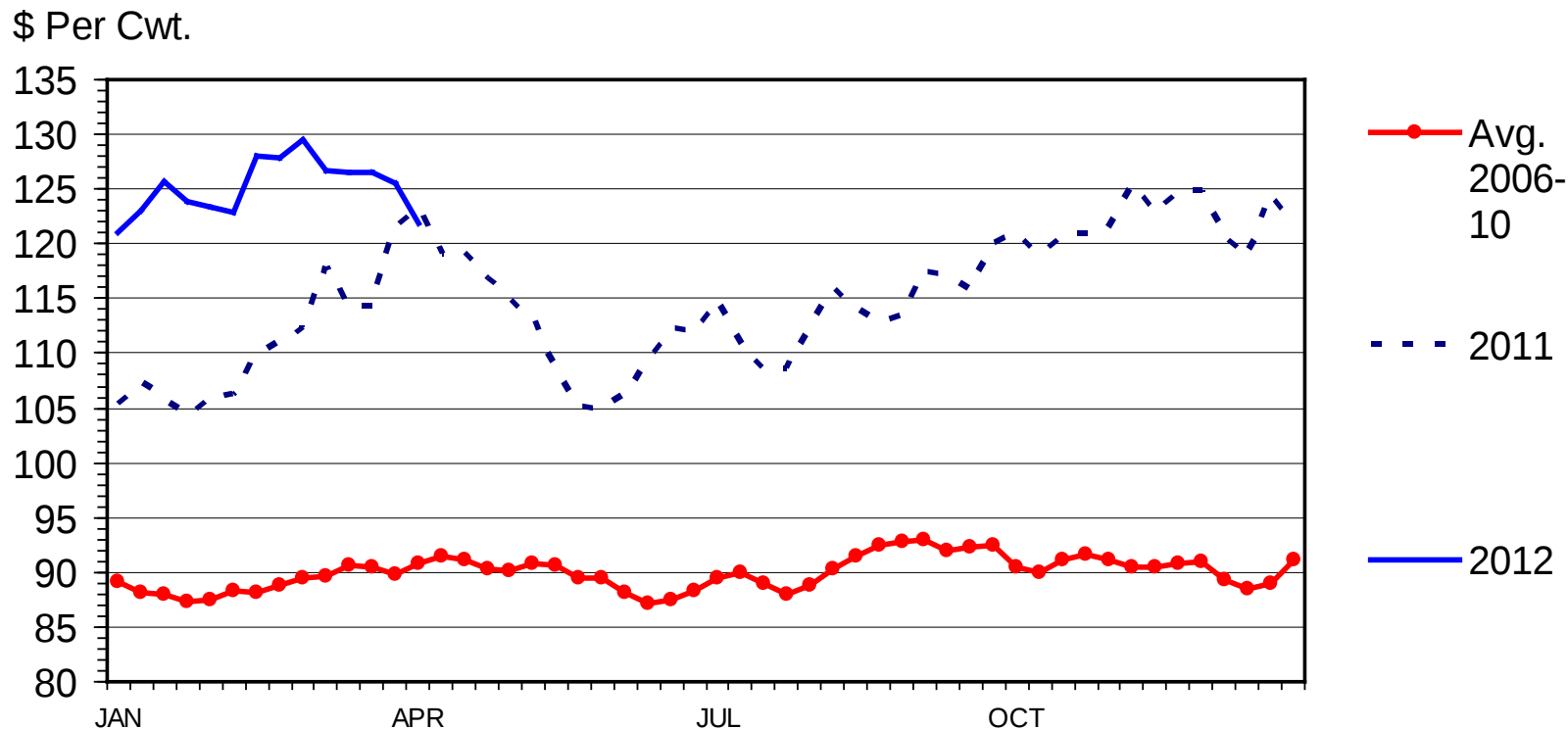
Feedlots: Over 1,000 Head Capacity

	# Operations	Marketings (mil. Hd)	Annual Change in Marketings	% of Total Marketings
2006	2,165	22.48		86.06%
2007	2,160	22.46	-0.1%	85.86%
2008	2,170	22.40	-0.3%	84.69%
2009	2,170	21.69	-3.2%	84.73%
2010	2,140	22.08	1.8%	84.57%
2011	2,120	22.58	2.3%	87.69%



SLAUGHTER STEER PRICES

5 Market Weighted Average, Weekly



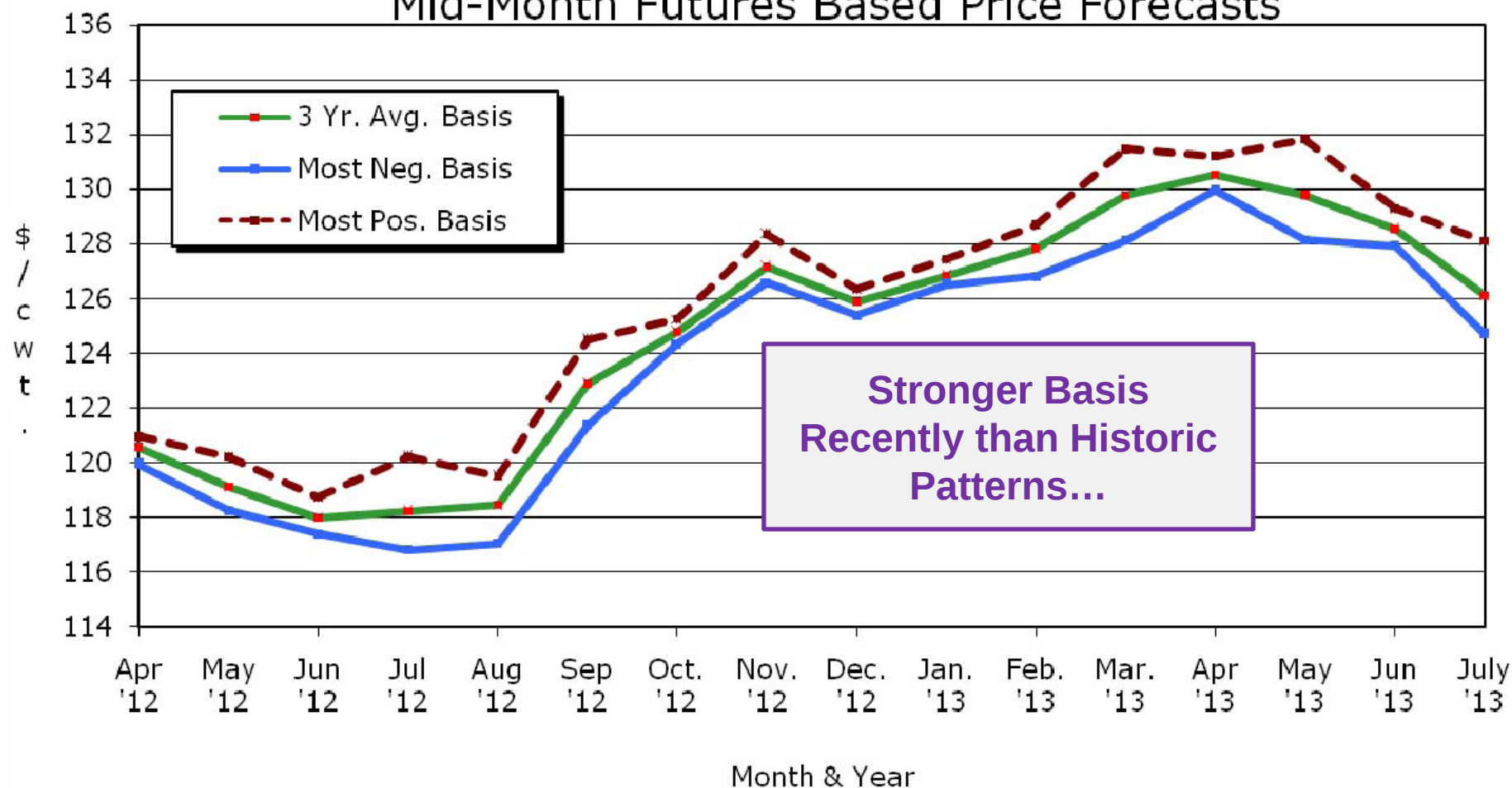
Livestock Marketing Information Center

Data Source: USDA-AMS



Kansas Slaughter Steer Price Forecasts

Mid-Month Futures Based Price Forecasts



Source: USDA-AMS, CME, & K-State Ag. Economics
Based on 4.17.12 CME Live Cattle settlement prices

KSU Dept. of Ag Econ
www.agmanager.info

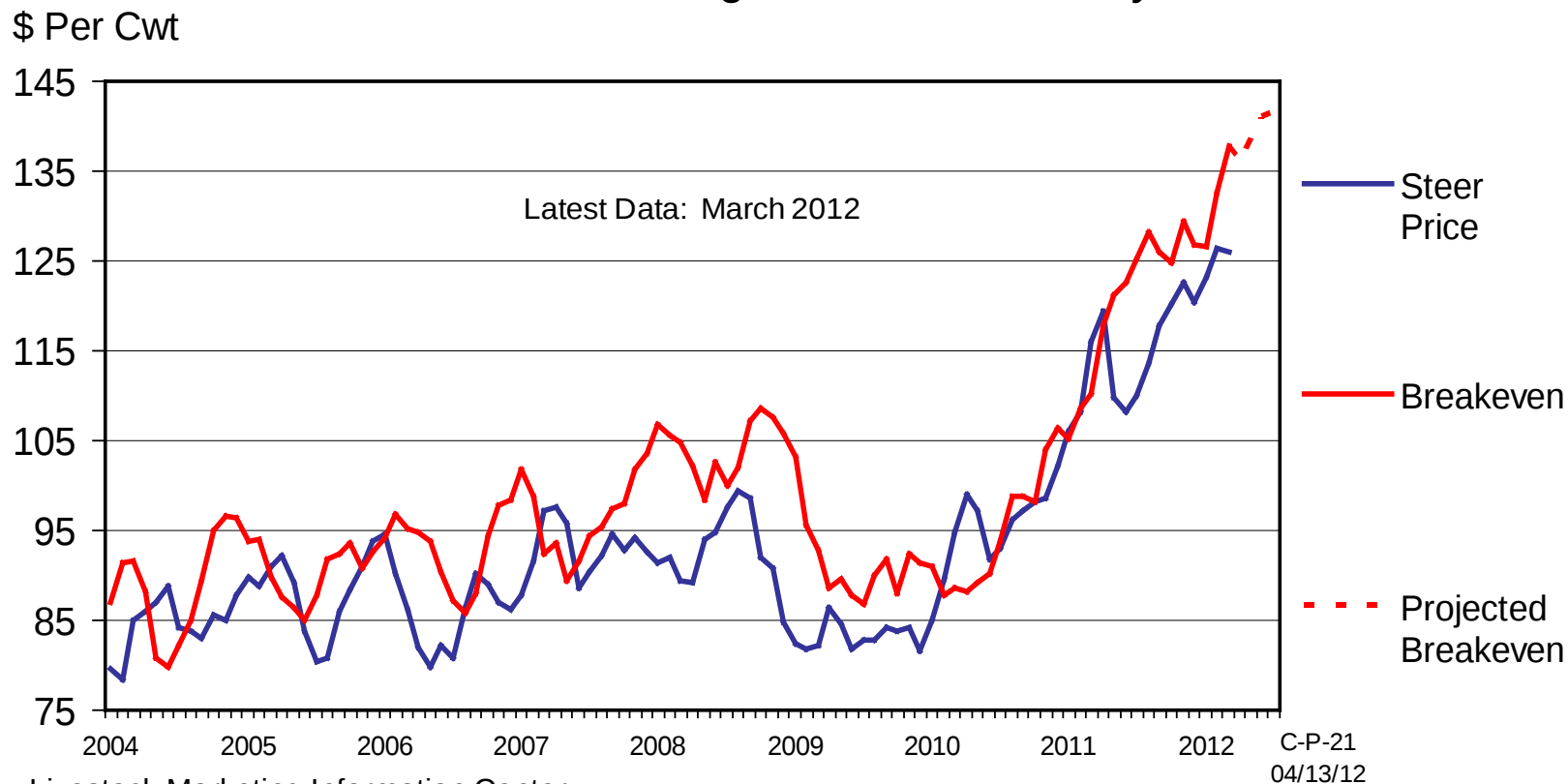


NAIBER (<http://www.naiber.org/>) 4/18/12' Forecasts:

750 lb KS Steer placed on 4/23 & sold at 1,251 lbs on 9/16/12' = ■ \$57/hd;

CHOICE STEER PRICE vs BREAKEVEN

Cattle Feeding, S. Plains, Monthly



Livestock Marketing Information Center

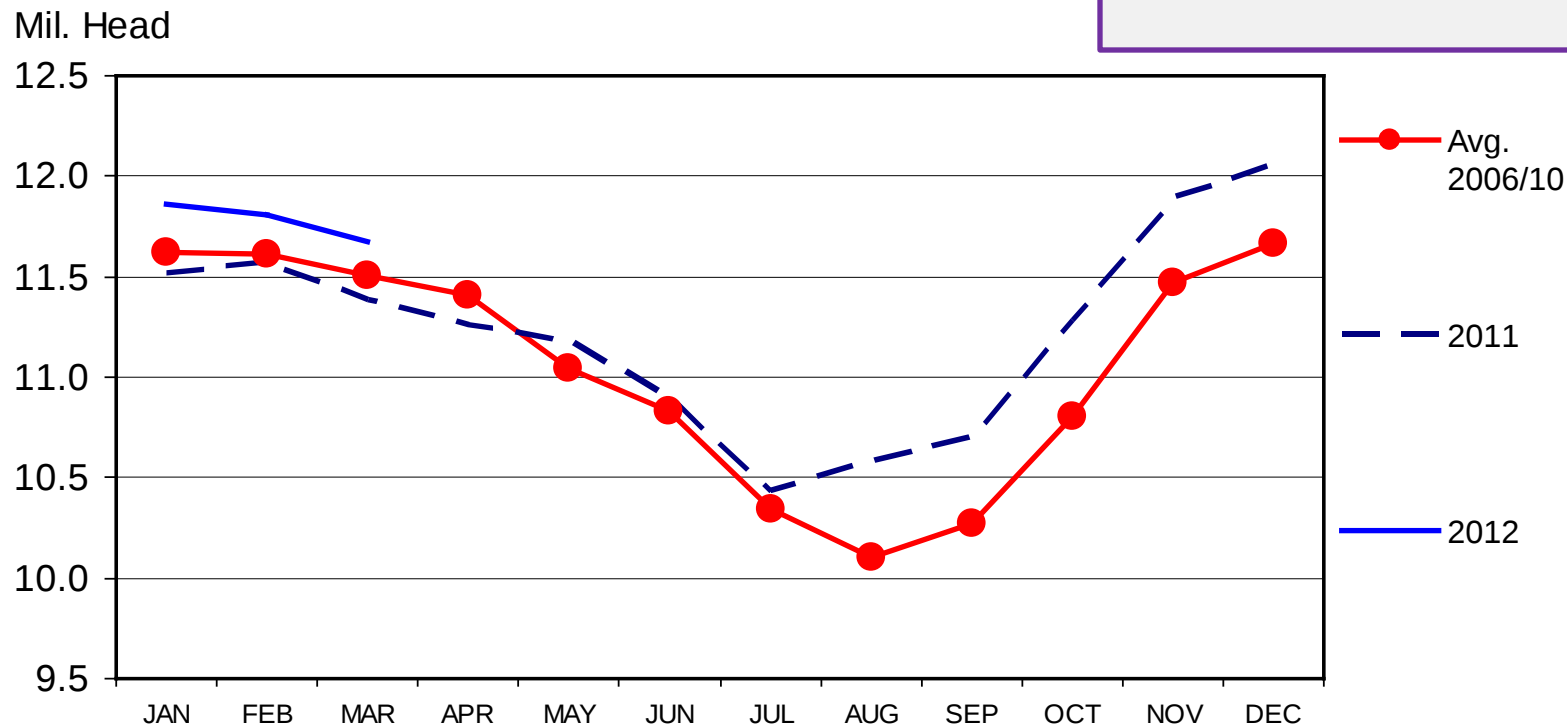
Data Source: USDA-AMS & USDA-NASS, Compiled & Analysis by LMIC



CATTLE ON FEED

US Total, Monthly

**4/20/12 Pre-Report
Estimates:**
On-Feed 4/1: 102%
Placed in March: 92%
Marketed in March: 95%



Livestock Marketing Information Center

Data Source: USDA-NASS

C-N-10
03/23/12



QUARTERLY FORECASTS (LMIC:4/18/12)

Year Quarter	Comm'l Slaughter	% Chg. from Year Ago	Average Dressed Weight	% Chg. from Year Ago	Comm'l Beef Production	% Chg. from Year Ago
2011						
I	8,316	1.86	771	0.72	6,410	2.60
II	8,639	-0.47	759	0.66	6,559	0.19
III	8,739	-0.14	771	-0.32	6,737	-0.46
IV	8,397	-2.97	773	-0.76	6,492	-3.70
Year	34,091	-0.46	768	0.06	26,199	-0.40
2012						
I	8,025	-3.50	782	1.50	6,279	-2.05
II	8,273	-4.24	771	1.49	6,375	-2.81
III	8,130	-6.97	786	1.90	6,387	-5.20
IV	7,930	-5.57	787	1.85	6,244	-3.82
Year	32,358	-5.08	781	1.68	25,285	-3.49
2013						
I	7,558	-5.82	791	1.11	5,979	-4.78
II	7,839	-5.25	777	0.79	6,088	-4.50
III	8,044	-1.06	794	1.12	6,390	0.05
IV	7,693	-2.99	795	0.97	6,116	-2.05
Year	31,134	-3.78	789	1.00	24,573	-2.82



QUARTERLY FORECASTS (LMIC: 4/18/12)

	Live Sltr.	% Chg.	Feeder Steer Price	
Year	Steer Price	from	Southern Plains	
Quarter	5-Mkt Avg	Year Ago	7-800#	5-600#
2011				
I	110.12	23.11	129.06	150.07
II	112.79	17.08	132.03	148.61
III	114.05	19.47	135.93	141.69
IV	121.99	21.66	143.15	153.11
Year	114.74	20.29	135.04	148.37
2012				
I	125.29	13.78	154.25	182.41
II	123-126	10.39	155-158	181-185
III	122-126	8.72	156-160	176-181
IV	125-130	4.51	154-159	172-178
Year	124-127	9.38	155-158	177-183
2013				
I	128-134	4.55	152-159	177-185
II	131-137	7.63	156-164	178-188
III	127-134	5.24	158-167	176-187
IV	130-138	5.10	156-166	171-184
Year	130-135	5.58	157-163	177-185



Economic Outlook Overview :

Beef Demand

- Meat prices rising w/i basket of purchases...
- Domestic demand has surprised analysts...
- Export success “tempered” but prospects remain bullish...
- Discussion on demand “getting complicated”
 - Growing interest in “how my food is produced”
 - Animal welfare, food safety, antibiotics, hormone use, local, organic, traceability...
 - LFTB (lean finely textured beef) discussion...
 - Customer vs. consumer distinction importance...



Yuck...

Beats eating
GMO. Reduces
animal slaughter.
Solves world
hunger. Looks
promising.

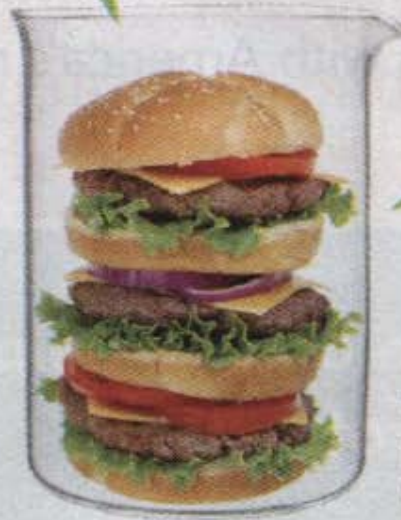
Your
move,
Taco
Bell!

Americans
have been proven
to eat anything that
comes in a nice
package with
the right
marketing.

SOCIAL MEDIA

Man-Made Meat

A TIME.com piece on the world's first lab-grown burger, to be served in 2012, got our Google+ followers so riled up that they maxed out the site's 500-comment limit, with many answering our question, Would you eat test-tube meat?

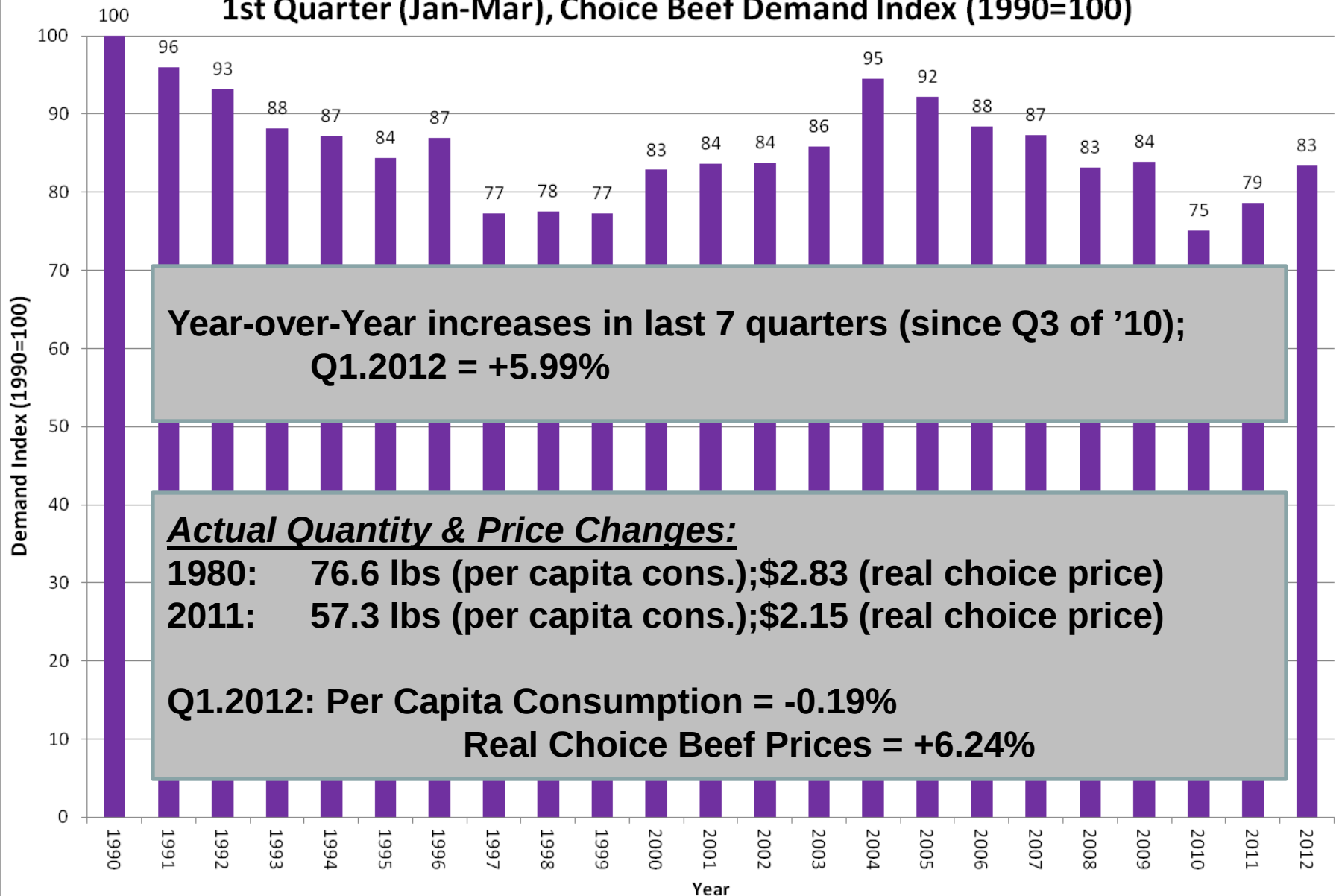


Comments, clockwise from left: Brontae Hunter, Miss M, Gian Robinson, Phil DiNuzzo

Source: March 12, 2012 TIME magazine



1st Quarter (Jan-Mar), Choice Beef Demand Index (1990=100)

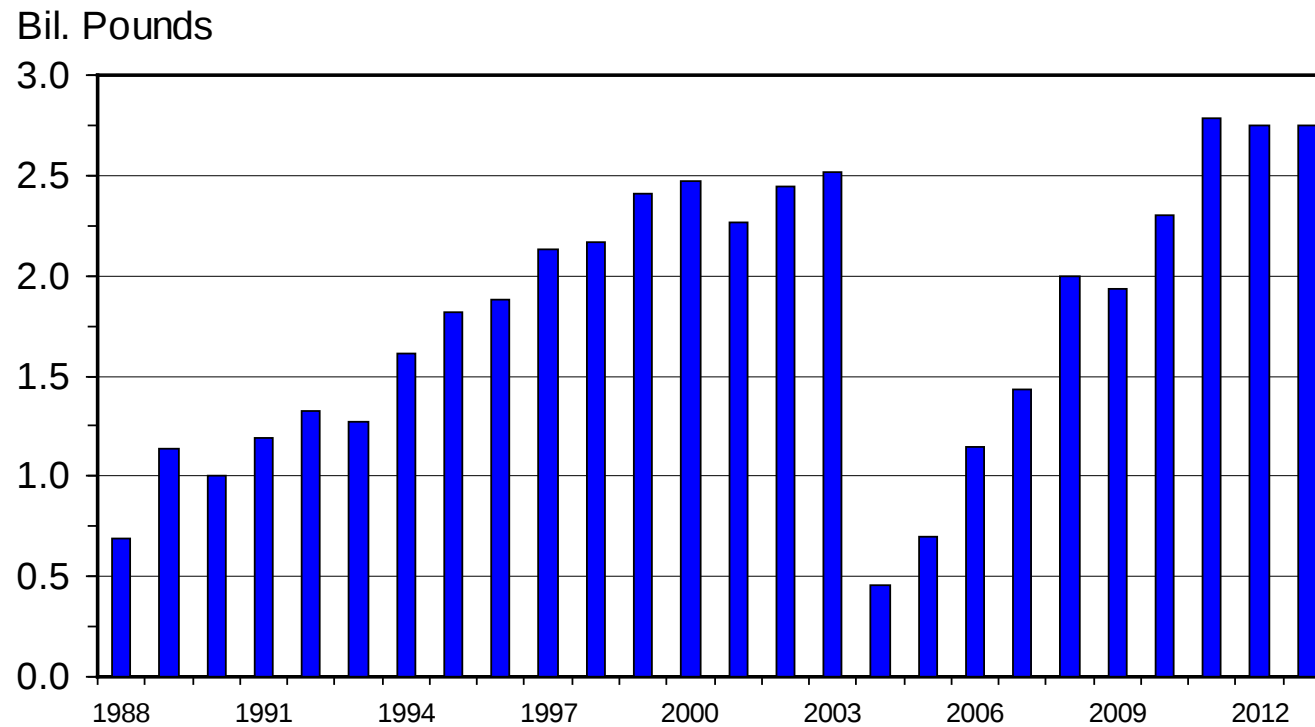


Source: Glynn T. Tonsor, Kansas State University, Apr. 2012



U S BEEF AND VEAL EXPORTS

Carcass Weight, Annual



Livestock Marketing Information Center

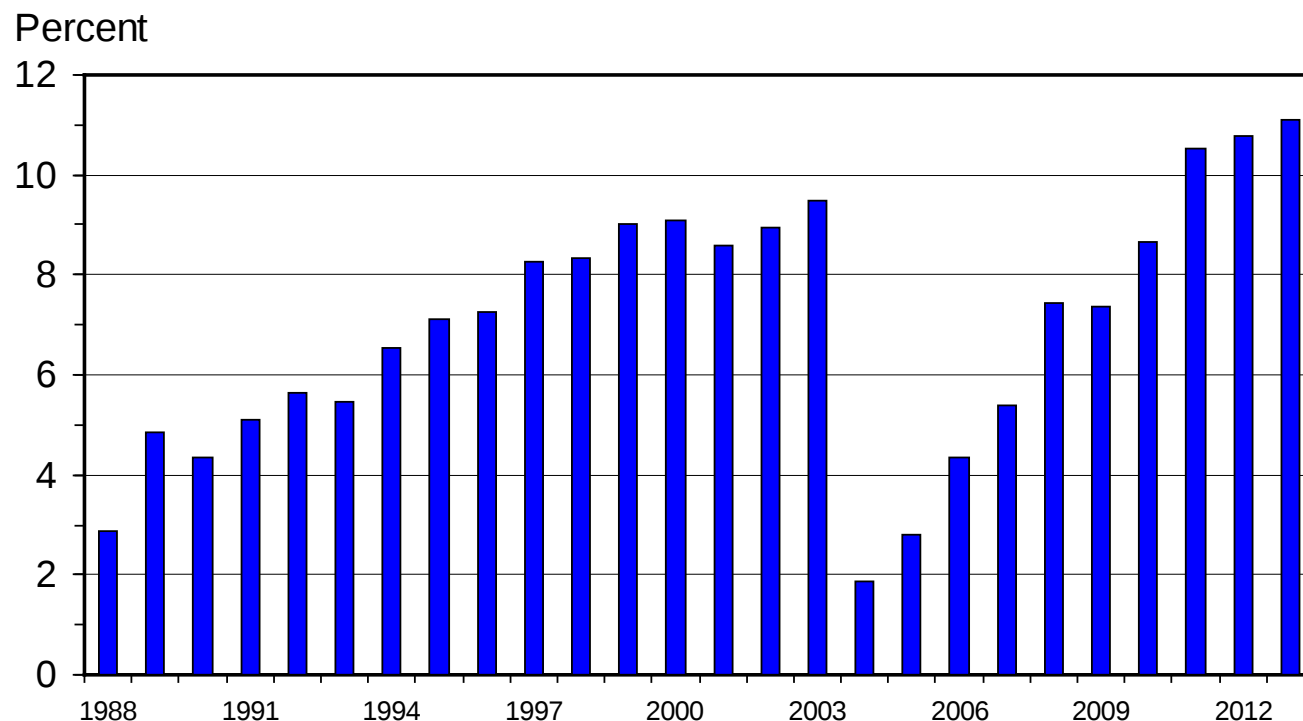
Data Source: USDA-ERS & USDA-FAS, Compiled & Analysis by LMIC

I-N-06
03/21/12



U S BEEF AND VEAL EXPORTS

As a Percentage of Production, Carcass Weight, Annual



Livestock Marketing Information Center

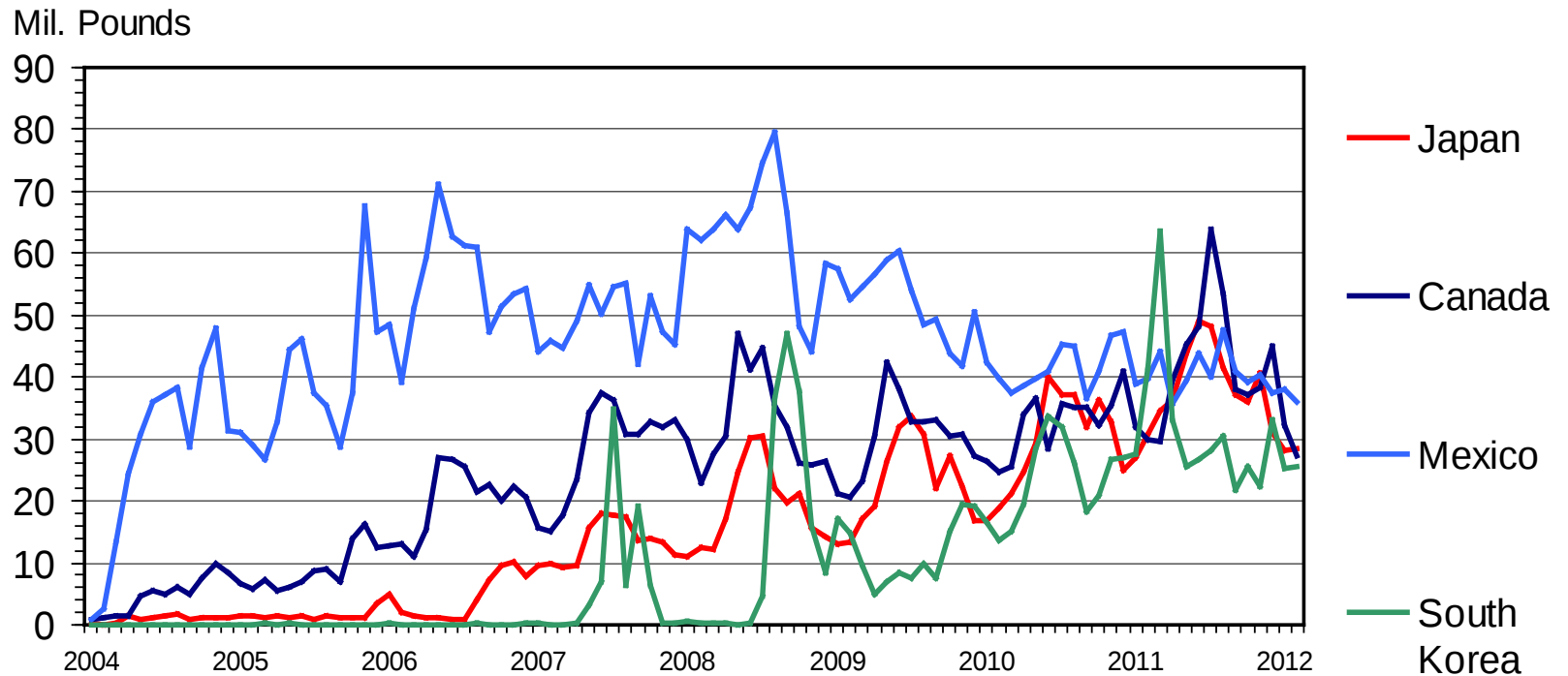
Data Source: USDA-ERS & USDA-FAS, Compiled & Analysis by LMIC

I-N-07
03/21/12



U S BEEF EXPORTS TO MAJOR MARKETS

Carcass Weight, Monthly



Livestock Marketing Information Center

Data Source: USDA-ERS & USDA-FAS

I-N-35
04/13/12



“Developing” trade discussions are new normal ...

- Japan may start accepting older cattle...
- FTA = reduction of South Korea tariffs
- USMEF – ID/Traceability study == U.S. falling behind
- WTO MCOOL ruling
 - U.S. response ...
 - Will Mexico ultimately place tariffs on U.S. pork?



USDA's longer-term projections (as of Feb. 2012) ...

<http://www.ers.usda.gov/Publications/OCE121/>



United States
Department of
Agriculture

Office of the
Chief Economist

World Agricultural
Outlook Board

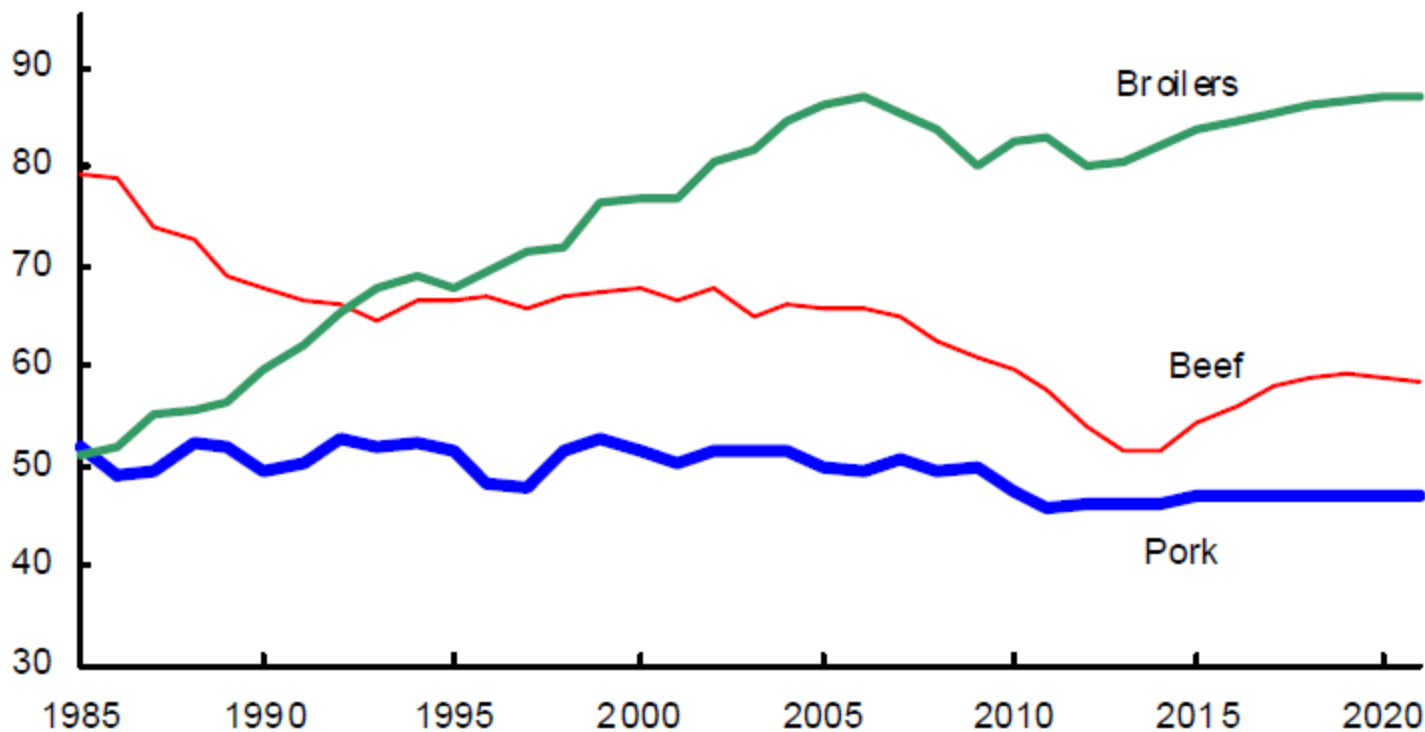
Long-term
Projections Report
OCE-2012-1

February 2012

USDA Agricultural Projections to 2021

U.S. per capita meat consumption

Pounds per capita, retail weight



USDA's longer-term projections (as of Feb. 2012) ...

<http://www.ers.usda.gov/Publications/OCE121/>

- **Beef cow inventory:**
 - 29.8 million in 2012
 - 34.5 million in 2021 (+/- 1997 levels)
- **Domestic per capita red meat and poultry consumption:**
 - 221 lbs in 2004-2007 (**Beef=65.7 lbs**; Pork=50.4 lbs; Poultry=103.8 lbs)
 - 198 lbs in 2013 (**Beef=51.3 lbs**; Pork=46.3 lbs; Poultry=98.5 lbs)
 - 213 lbs in 2021 (**Beef=58.7 lbs**; Pork=47.2 lbs; Poultry=105.8 lbs)
- **Beef exports:**
 - 2.30 billion lbs in 2010
 - 2.77 billion lbs in 2011
 - 3.16 billion lbs in 2021



Is overall uncertainty holding back investment???

- WTO MCOOL ruling, response, next steps...
- Animal welfare
- GIPSA “fair market” proposed rules / “anti-competition” listening sessions ...
 - Ultimately little action w/r/t beef cattle industry
 - **BUT** lots of wasted time & energy...
- Environmental regulation concerns persist
- Farm bill and tax code/policy uncertainties...
 - *If cow-calf herd used to expand when Exp.*
Profit=\$100/cow, what trigger is needed today???



More information available at:
AgManager (<http://www.agmanager.info/>)

Glynn T. Tonsor
Assistant Professor
Dept. of Agricultural Economics
Kansas State University
gtt@agecon.ksu.edu



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K-State Decision Aides: Cattle Price Oriented

(<http://www.agmanager.info/Tools/default.asp>)

- Expectations on Future Cash Prices
 - <http://www.beefbasis.com/>
- Examine Feeder Cattle Risk Management Alternatives
 - *“K-State Feeder Cattle Risk Management Tool”*
- Project Premium/Discount of Calf/Steer Attributes
 - *“K-State Feeder Cattle Price Analyzer”*
- Stocker Breakeven Selling/Purchasing Prices
 - *“Cattle Breakeven Selling and Purchase Prices”*



Other K-State Decision Aides

(<http://www.agmanager.info/Tools/default.asp>)

- NPV of Beef Replacements
 - “*KSU-Beef Replacements*”
- Beef Cow Lease Agreements
 - “*KSU-CowLease*”
- Determining Flint Hills Pasture Rents
 - “*KSU-Graze.xls*”





Beef-Cattle Economics webinar series

Series of quarterly webinars on beef-cattle markets and other industry-related issues.

2012 schedule (all webinars begin at 1:30 CST)

February 7

May 1

August 7

November 6

For details about specific topics and registering for webinars see additional information on AgManager.info

